

2023 CASTO School Transportation Business Management Forum

Hot Topics

October 11, 2023



California Association of School Transportation Officials School Transportation Business Management Forum

Hot Topics October 11, 2022

Presented By:

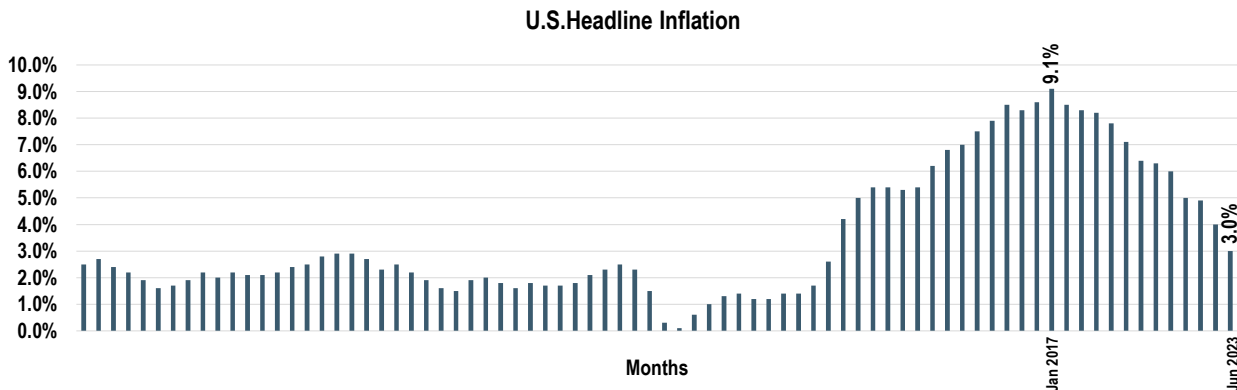
John Gray
President and CEO

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2

U.S. Consumer Price Index

- U.S. inflation declined from 4.9% at May Revision to 3.0%, continuing its downward trajectory from a 9.1% peak in mid-2022. August, 2023 edging back up to 3.7%
- Although improving, we are still above a target U.S. inflation rate of 2.0%



Source: Bureau of Labor Statistics

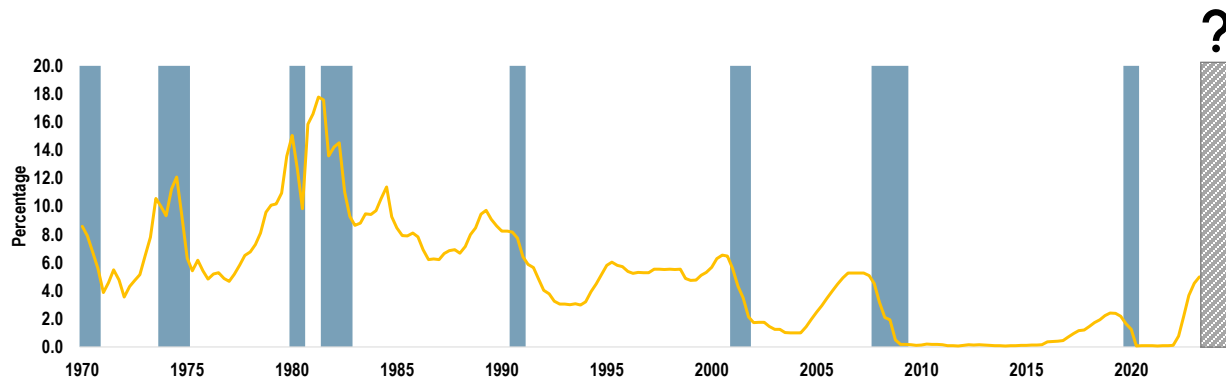
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3 Federal Funds Rate Trend

Historically, a series of Federal Reserve (Fed) interest rate increases are often followed by a recession



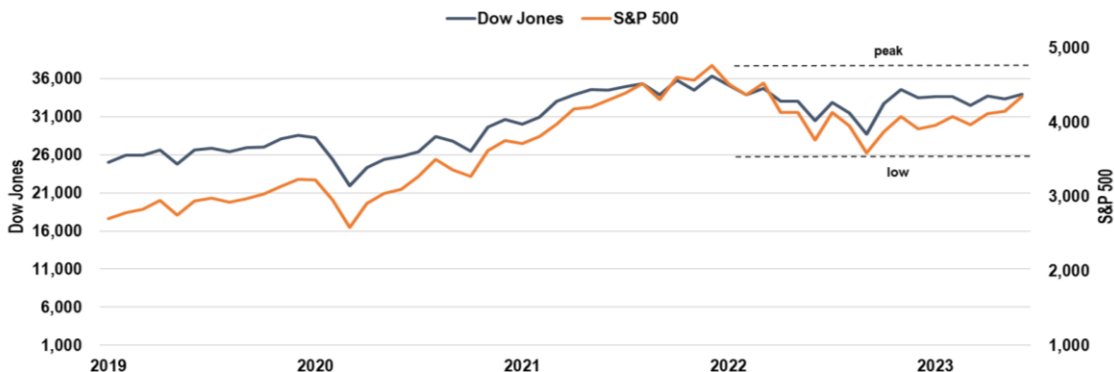
Note: Shaded areas signify economic recessions

Sources: Fed rates, Federal Reserve Economic Data (FRED); Recessions, National Bureau of Economic Research

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4 Wall Street

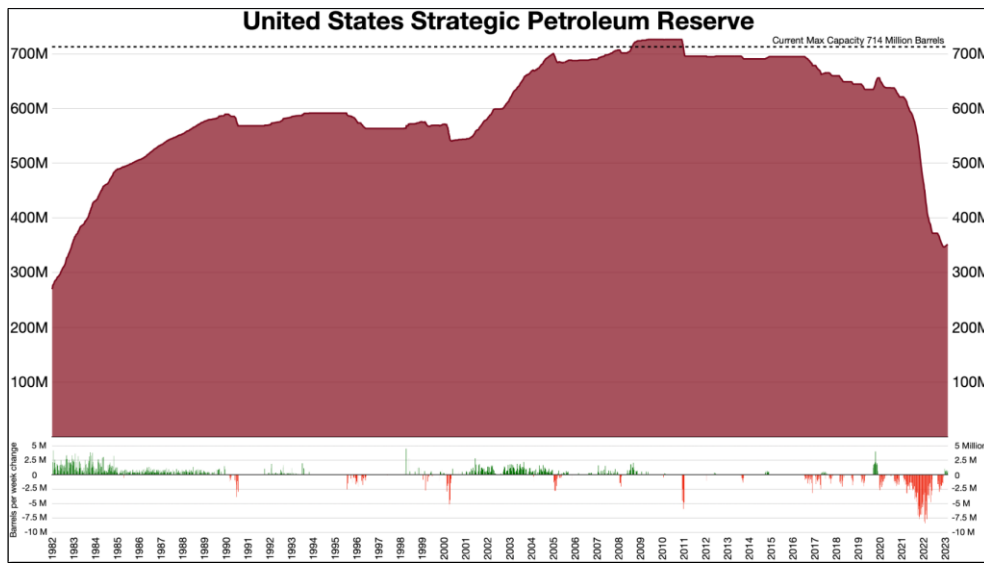
- Although not performing at peak pre-interest rate increase levels, Wall Street continues to recover
- The Dow Jones is at 33,876 and the S&P 500 is at 4,339
- The performance of both indexes has improved since May Revision



Source: FRED

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5 United States Strategic Petroleum Reserve

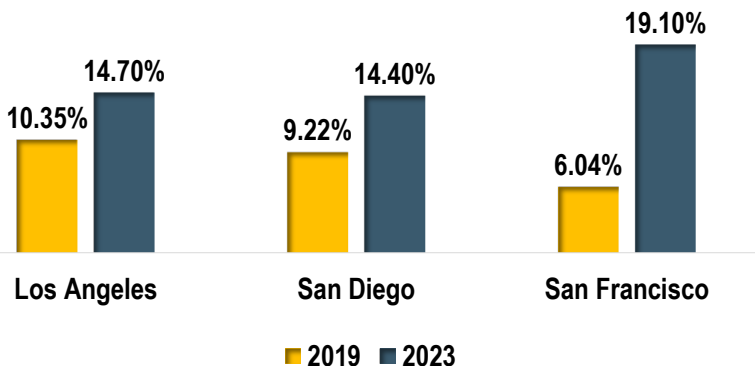


Source: Wikimedia Commons

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6 Commercial Real Estate Crisis

Office Vacancy Rate



- Office vacancy rates have increased
- Decreased demand for commercial property undermines property values
- As commercial property debts mature, some owners will have trouble refinancing with buildings worth less than the value of loans
- \$1.5 trillion in commercial mortgages is due for repayment before the end of 2025

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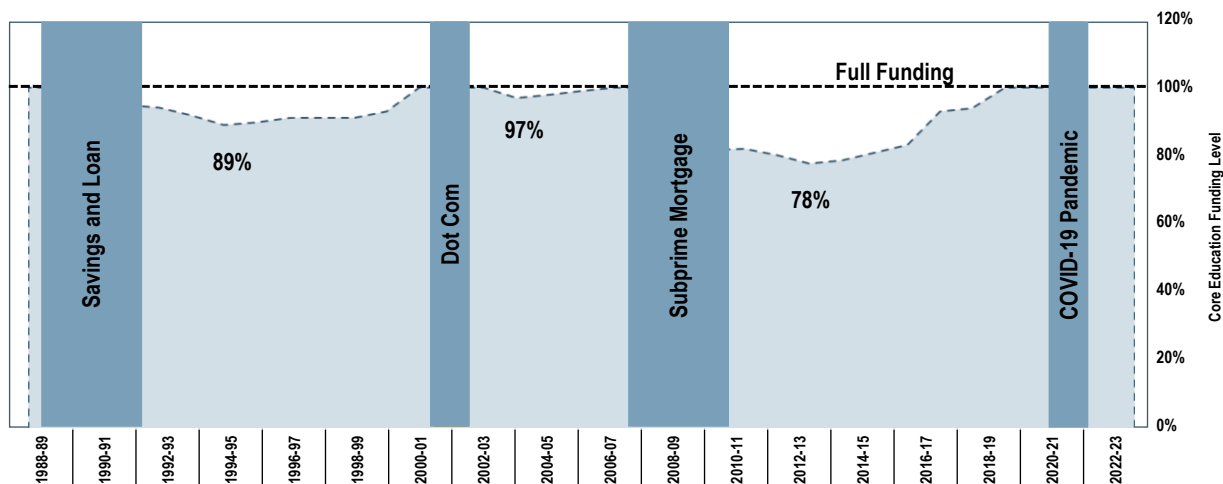
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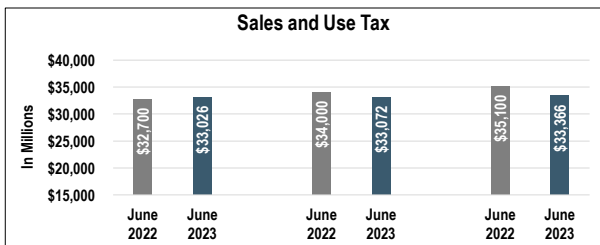
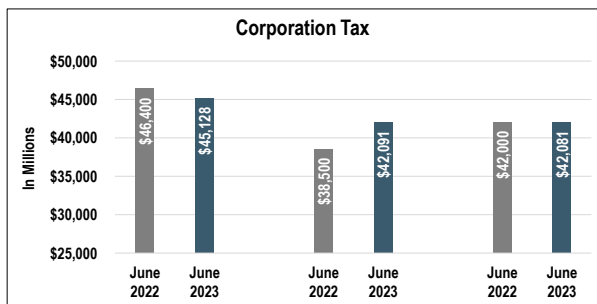
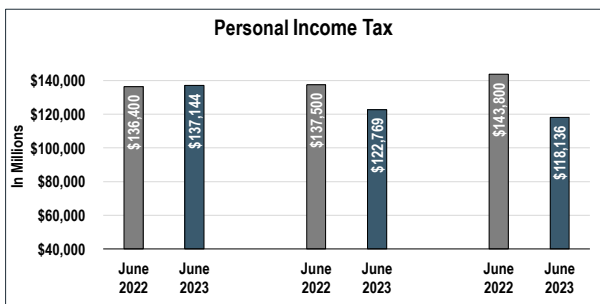
7 Specter of Recession

Economic Recessions and Education Funding in John Gray's Professional Career



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8 "Big Three" Taxes Year Over Year



- There has been a significant year-over-year decline in projected personal income tax revenue
- Corporation tax revenue projections have increased
- Sales and use tax revenue projections are relatively stable

Source: 2022-23 and 2023-24 Department of Finance (DOF) Revised Budget Summary revenue estimates

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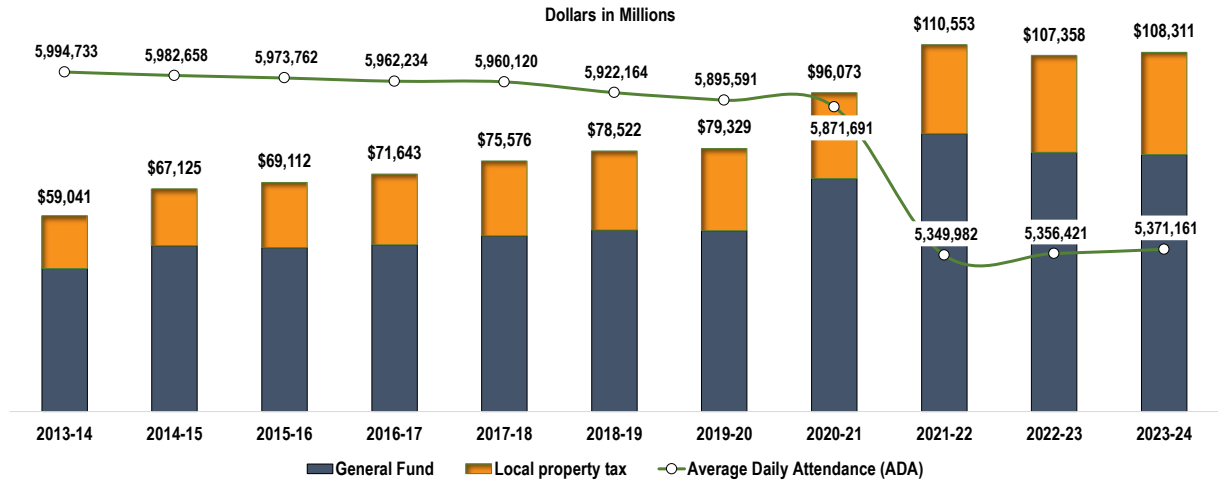
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9 Proposition 98 Minimum Guarantee Over Time

- Since the inception of the Local Control Funding Formula (LCFF), Proposition 98 has increased 83% while K-12 student attendance has declined 10% over the same time period



10 Grant Reductions

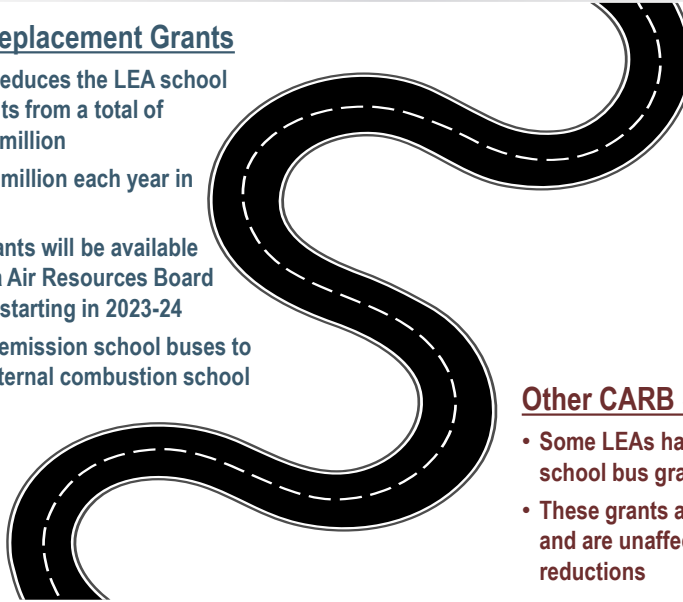
	2022 Budget Act	Governor's Budget	May Revision	Legislative Budget Deal	Enacted Budget
Arts, Music, and Instructional Materials Discretionary Block Grant	\$3.6 billion	\$1.2 billion reduction	\$1.8 billion reduction	\$200 million reduction	\$200 million reduction
Learning Recovery Emergency Block Grant	\$7.9 billion	-	\$2.5 billion reduction	\$494.5 million reduction	\$1.1 billion reduction (intent to restore over three years starting in 2025-26)
LEA ¹ School Bus Replacement Grants	\$1.125 billion	-	-	\$1 billion reduction	\$750 million reduction (intent to restore over two years starting in 2024-25)
Zero-Emission School Bus Infrastructure	\$375 million	-	-	-	\$250 million reduction (intent to restore over two years starting in 2024-25)
Golden State Pathways Program	\$500 million	-	-	\$400 million reduction	-

¹Local Educational Agency (LEA)

11 Green School Bus Grants Reduction

LEA School Bus Replacement Grants

- The Enacted Budget reduces the LEA school bus replacement grants from a total of \$1.125 billion to \$375 million
- Intent to restore \$375 million each year in 2024-25 and 2025-26
- These competitive grants will be available through the California Air Resources Board (CARB) for five years starting in 2023-24
- Grants will fund zero-emission school buses to replace heavy-duty internal combustion school buses



Infrastructure

- The Enacted Budget reduces zero-emission school bus infrastructure grants from a total of \$375 million to \$125 million
- Intent to restore \$125 million each year in 2024-25 and 2025-26

Other CARB School Bus Grants

- Some LEAs have received zero-emission school bus grants already through CARB
- These grants are from a different source and are unaffected by the budget reductions

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12 SSC Financial Projection Dartboard

		Planning Factors				
		2022-23	2023-24	2024-25	2025-26	2026-27
DOF Planning COLA ¹		6.56%	8.22%	3.94%	3.29%	3.19%
California CPI ²		5.69%	3.55%	3.03%	2.64%	2.90%
CalSTRS ³ Employer Rate		19.10%	19.10%	19.10%	19.10%	19.10%
CalPERS ⁴ Employer Rate		25.37%	26.68%	27.70%	28.30%	28.70%
Unemployment Insurance		0.50%	0.05%	0.05%	0.05%	0.05%
California Lottery	Unrestricted per ADA	\$204	\$177	\$177	\$177	\$177
	Restricted per ADA	\$100	\$72	\$72	\$72	\$72
Mandate Block Grant (District) ⁵	Grades K-8 per ADA	\$34.94	\$37.81	\$39.30	\$40.59	\$41.88
	Grades 9-12 per ADA	\$67.31	\$72.84	\$75.71	\$78.20	\$80.69
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$18.34	\$19.85	\$20.63	\$21.31	\$21.99
	Grades 9-12 per ADA	\$50.98	\$55.17	\$57.34	\$59.23	\$61.12

¹Cost-of-living adjustment ²Consumer Price Index (CPI), ³California State Teachers' Retirement System, ⁴California Public Employees' Retirement System, ⁵County Office of Education Mandate Block Grant: \$37.81 per ADA grades K-8; \$72.84 per ADA grades 9-12; \$1.27 per unit of countywide ADA

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13 Proposition 98 Reserve Requirements

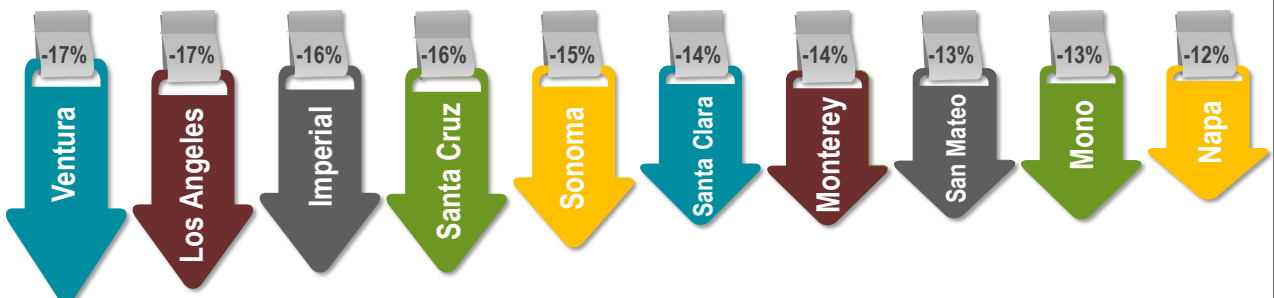
Proposition 2 (2014) establishes conditions for deposits into and withdrawals from the Proposition 98 Reserve

Deposit Requirements	Withdrawal Requirements
<ul style="list-style-type: none"> ✓ Maintenance factor prior to 2014-15 is fully paid ✓ Minimum guarantee is based on Test 1 ✓ Minimum guarantee can fund changes in attendance and the COLA ✓ Capital gains exceed 8% of General Fund revenues 	<ul style="list-style-type: none"> ✗ Budget year Proposition 98 is lower than prior-year level, adjusted for inflation and attendance <ul style="list-style-type: none"> ▪ When this occurs, the Legislature may only withdraw the amount necessary to bring Proposition 98 to prior-year level ✗ Governor declares a budget emergency <ul style="list-style-type: none"> ▪ When this occurs, the Legislature may withdraw any amount

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14 Declining Enrollment Projections 2022-23 to 2031-32

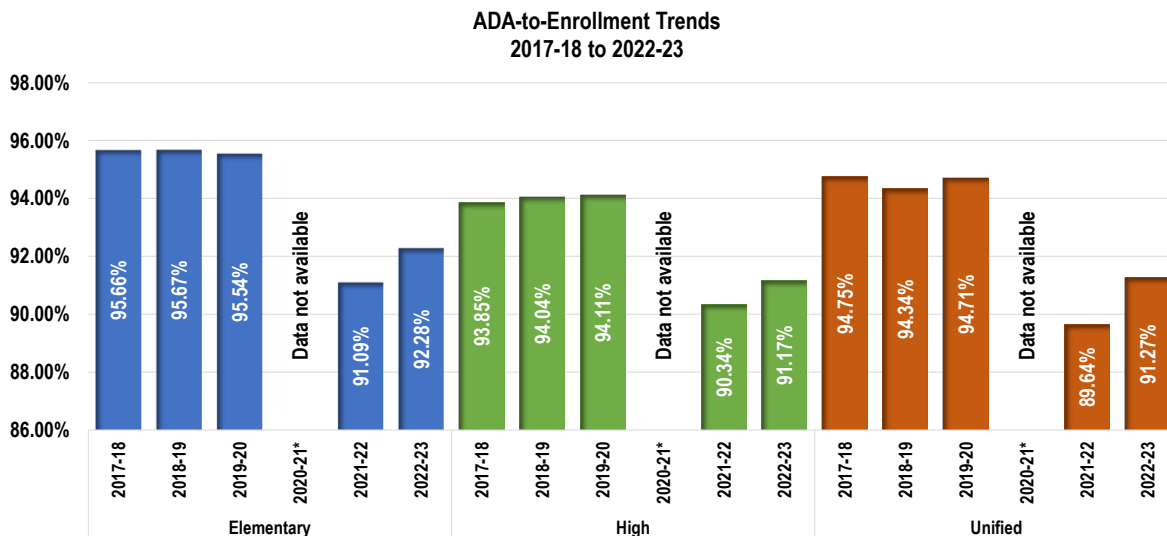
- Most areas in the state are affected by declining enrollment, but to differing degrees:
 - 12 counties are projected to lose 10,000 or more students between 2022-23 and 2031-32
 - 18 counties will lose students at a rate faster than the statewide average of 8.27%
- Enrollment trends for each LEA are unique to the community and student populations they serve
- Enrollment trends impact the bottom line—in the current year and the out-years



Source: DOF, California Department of Education (CDE)

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15 P-2 ADA-to-Enrollment Trends, 2017-18 to 2022-23

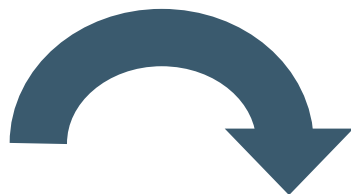


Note: Second Principal (P-2) Apportionment Data

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16 UPP Trends—2018-19 to 2022-23

Half of the districts in the state saw a decline in Unduplicated Pupil Percentage (UPP)—representing 43% of the state's ADA

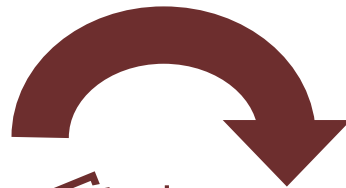


2.8%

Average decline over the last five years across districts declining in UPP%



Nearly 30 districts are no longer receiving LCFF concentration grants due to this trend



\$260

2023-24 estimated per ADA revenue loss for a high UPP district with a decrease of 2.8%

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17 Certificated Nonmanagement FTE

District	ADA Loss	ADA/FTE ¹ Ratio 2017-18	ADA/FTE Ratio 2021-22	ADA/FTE Ratio Difference	Total FTE Difference	Percentage	Total Cost Using Average Compensation
Los Angeles Unified	(94,166)	18.05	15.05	3.00	3,792	19.9%	\$369,834,623
Long Beach Unified	(11,133)	21.40	18.14	3.26	503	18.0%	\$60,604,620
San Diego Unified	(13,810)	17.85	15.42	2.43	757	15.8%	\$83,147,291
Fresno Unified	(7,890)	17.84	13.66	4.18	1,008	30.6%	\$102,154,943
Stockton Unified	(4,235)	19.88	16.78	3.10	287	18.5%	\$29,708,306

¹Full-time equivalent

Source: State-certified J-90

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18 Super Bad Recession?

- Based on past behavior, what will be the state's response to public education?

Highly Likely

Release Public School System Stabilization Account Reserve?

Highly Likely

Cash deferrals?

Likely

Categorical flexibility (Expanded Learning Opportunities Program)?

Likely

Cuts to base funding?

Last Resort

Ability to negotiate fewer instructional days?

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19 2023-24 Bargaining Landscape

Kentfield School District support staff declare impasse in contract talks 8/16/23—compensation (asking for 14-27% increase)

Teachers in Oakland, California begin strike over pay and social issues 5/5/23—compensation, more non-classroom staff, social-justice platforms



Massive strike shuts down LAUSD¹; 420,000 students out of school 3/21/23—wages, increased staffing, more hours (SEIU²)

Tensions high in San Rafael City Schools contract talks 3/10/23—compensation, prep time

West Contra Costa Unified teachers to enter into fact-finding; strike could follow 2/9/23—compensation

¹Los Angeles Unified School District
²Service Employees International Union

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20 School Transportation Legislation



The Legislature concluded its work for the first year of the 2023-24 Legislative Session on September 14, 2023, and is currently on recess until January 3, 2024

Governor Gavin Newsom has until October 14, 2023, to sign or veto legislation



Last weekend, the Governor signed two significant transportation bills into law: Senate Bill (SB) 88 (Skinner, D-Berkeley) and Assembly Bill (AB) 579 (Ting, D-San Francisco)



SB 88 establishes new requirements for drivers who are compensated to provide school-related transportation services to students whether they are employed or contracted by an LEA

- Senator Nancy Skinner agreed to exempt specified drivers from the bill's requirements

- SB 88 doesn't officially go into effect until July 1, 2025, or upon the expiration of an LEA's transportation contract, whichever is later



- AB 579 requires, commencing January 1, 2035, all newly purchased or contracted school buses of an LEA be zero-emission vehicles, with specified exceptions

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21 AB 1273—Classified Employee Staffing Ratio Workgroup

- Governor Newsom also signed AB 1273 (Bonta, D-Oakland), which requires the CDE to convene the Classified Employee Staffing Ratio Workgroup by December 31, 2024
- The bill requires the workgroup to group classified assignments in a manner that reflects the environmental setting of the assignment, the type of work to be completed, the impact on the assignment made by enrollment at a schoolsite, specialized needs, including certifications or licenses, and other reasonable factors
 - Permits the workgroup to include the categories of food service, maintenance and operations, office and technical services, paraeducators, special services, and transportation services
- The workgroup must recommend staffing ratios per identified grouping of classified assignments and requires the staffing ratios to compare the number of classified staff needed for each group with the number of pupils
- The recommendations are due to the Legislature by December 31, 2025

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Thank you!

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